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Where Are We?

The bottom line is:

- Utilities have done a great job of wringing the value out of their service territories,

And

- The next value frontier is regional collaboration and investment in transmission to enable emerging regional electricity markets to minimize energy price over time.
Where Are We?

- Impediments to Any Investment Abound!
  - Local problems
    - Why should we suffer infrastructure to help *them*?
  - No consensus on Energy Policy
    - State by State conflict
    - Environmental and economic policy politics
  - FERC tariffs are nearly irrelevant today
    - Shifting more cost to FERC tariffs cause earnings risk
  - High fuel price pass through vs. a rate case risk
Where Are We?

Impediments to Cost Sharing

- Current infrastructure pricing remains balkanized
  - Entities have an obligation to vote their short-term pocket book
  - As costs are allocated, members offer to vote with their feet
  - Investment, therefore, is on narrowly focused interests
- Many States (and therefore their utilities) worry they will “subsidize” neighbors investments
  - “We made the investments we needed; how come they didn’t?”
Where Are We?

Implicit Objectives of Today’s Planning

- Maintaining reliability criteria with Minimum transmission investment will yield maximum value
  - (Remember, higher fuel cost gets pass through)
  - (Bringing in competition doesn’t protect your market share)
  - (All headlines are bad, remember)
  - (It’s less than 10% of your business)

- 5-Year planning horizons
  - Uncertainty of Sources of energy and locations
  - Planning horizons shorter than project horizons?
Where Are We?

Regional Expansion Criteria Benefits (RECB)

- RECB I
  - Modest cost sharing based on a class of projects with obvious value
  - Two members have indicated they may exit as a result

- RECB II
  - Broader cost sharing
  - Troglodytic criteria due to deep skepticism
    - Immature analytics
    - Fear loss of control of costs
Where Are We Going?

- Midwest ISO is pursuing a strategy to:
  - Change the objective of transmission planning from minimum peak capacity planning to delivered wholesale energy price (cost?)
  - Develop a better understanding of transmission investment’s value proposition by:
    - Reflecting all identifiable value drives
    - Recognizing the public good attributes of delivery infrastructure
    - Recognizing the individual beneficiaries attributes
    - Trying to balance a cost allocation accordingly
    - Extending planning horizons to reflect project timescales
    - Scenario modeling
    - Articulate that value, adjust the sharing to correspond

- Develop political consensus
  - Engage State regulators and interested observers
  - Engage in the political process
All We Need To Do Is Find the Sweet Spot!

Current reserve margins, congestion cost

Minimum Total Cost; energy, capacity and transmission

Minimum Reserve Margin Limit

Total Cost ($)

Reserve Margin (%)

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Transfer Capability (MW)

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